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SUBJECT: Guatemalan Response to Central American Energy Initiative

REF: A. STATE 11181

1B. 05 Guatemala 02806
1C. 05 MEXICO 07466

¶1. Econoff met with GOG officials to discuss the new Central American Energy Initiative (the Meso-American Energy Initiative). GOG officials indicated that much of the initiative has existed in various forms throughout the region over the years. They added that, while this initiative is a welcome possible solution to the high cost of energy and increasing demand, it does not go beyond previous initiatives. Furthermore, a regional natural gas pipeline would require the participation of countries such as Venezuela or Colombia, since Mexico does not have natural gas resources to export.

¶2. A regional refinery is of great interest to Guatemala. Officials said that Guatemala and Belize are the only petroleum producers in the region and Guatemala consumes the most energy (25%) of the entire Central American region. They felt that any regional refinery should be close to the area of production and potential markets. They further indicated that Guatemala is strategically located in close proximity to four of the countries that would benefit from a regional initiative, and has a pipeline infrastructure partially in place.

¶3. GOG officials felt that the San Jose Accord (ref A) has limited viability. They said that Guatemala alone could consume the whole regional supply of oil exported under the accord and that it offered few price incentives. Guatemala's primary sources for oil have historically been the United States, Mexico and Venezuela. However, Venezuela recently cut off supply of heavy orimulsion fuel to Duke Energy, one of Guatemala's major electricity generators, and has become increasingly unreliable with oil shipments.

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